The Talking Law Podcast

Episode 108 – 6 steps to increasing the multiplier of your business - Part 1

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Transcript

Joanna: Hi, it's Joanna Oakey here and welcome back to Talking Law, a podcast proudly brought to you by a commercial legal practice Aspect Legal. Now today we have the first part of a three-part series for you that is an absolute bumper series and in these three episodes as part of our series, we are looking primarily at the multiplier of your business and how to increase it. In order to talk about this, I have onboard Marc Johnstone from Shirlaws group and Nathan Williams from Customer Return. And in these three episodes, we dig into six steps to increase the multiplier of your business, i.e. six steps to increasing the value of your business exponentially. Now in this episode, which is part one of our three-part series, we investigate what a multiplier is, and why you might want to increase it. And we also start with step one, talking about talent capability, and culture. And then if you would like to, I highly encourage you to come back for our next two episodes, part two and part three of our three-part series where we run through the other five steps to increasing the multiplier of your business, i.e. your business value, I think this is a really critical topic for businesses, we investigate some really interesting ideas and somewhat easy ways of execution. So if you're interested in this topic, then buckle in, because here we go for part one of six steps to increasing the multiplier of your business.

Joanna: Wonderful Marc and Nathan. Firstly, I just wanted to say a very big thank you for joining us on the Deal Room podcast today.

Marc: Thanks for having us.

Nathan: Thanks for having us, Jo.

Joanna: Brilliant! It's my absolute pleasure. I'm super, super, super excited about today. Talking about increasing the multiplier of your business in just six steps, love it. Absolutely love it. Every business owner I speak to, almost every business owner wants to know how to increase the multiplier of the business, how to increase the value of the business and maybe What we should do is take one step back, and look why we're talking about the multiplier. But before we do that, I just like you to each give a really quick overview of who you are and what you do and how you work with. Nathan, over to you.

Nathan: Thanks, Jo. So long story short I am the owner and founder of a South consulting business called Customer Return. And the three things we do I help people pitch their business, increase their sales capability, and get a lot more repeat and referral business. So some of those things are obviously a lot increasing valuations in business by increasing these like conversion rates ability to bring in new clients. And then once they've got those new clients how to get those repeat and referral sales happening to recall that reliable stable, recurring revenue.

Joanna: Yeah, absolutely fabulous. Okay, wonderful. Thanks, Nathan. Then over to you Marc. Maybe if you can give us a bit of background.

Marc: Thanks, Jo. My name is Marc Johnston from Shirlaws, I'm one of the founders of the company. For the last 20 years, we've had the pleasure and honour of working with SME owners around the world to help them increase their share price and the valuation of their companies. And we've done that through a combination of intellectual property processes to increase the share price and delivery methodology around coaching, not consulting, so that we don't write big thick reports and say good luck, we actually get in the trenches with them, and help drive that share price growth. And we've had the honour of, as I said, creating about $7 billion worth of share price growth across our businesses. And our average growth is about 220% in the share price, over an 18 month period.

Joanna: Sorry, repeat that the average share price increase you've managed to achieve Did you say is how much?

Marc: 220%

What is the multiplier of a business?

Joanna: 220% ? over 18 months? That's phenomenal. I absolutely love numbers like that mark. Okay, wonderful. So, let's talk about it. So of course, the topic today is six steps to increasing the multiplier of your business. But moving one step back for perhaps new listeners to the Deal Room podcast, what is the multiplier of the business? Why are we using this terminology? What is it that we're talking about at the moment.

Two parts that drive the valuation of a business

Marc: Great question and a great baseline to start. So every SME has a share price. But when you talk to SME owners, they don't actually realize they have a share price. And they certainly don't know how to calculate it. And so the share price of the business is its enterprise value, divided by the number of shares. So when we talk about the value of a company, there are two parts that drive that valuation. One is the profit of the business and one is then the multiplier. And so if you have a $3 million dollar profit business, the average multiplier in most industries is three. So that's where the term three times comp becomes part of our lexicon. So what we have with an SME owner, if you've got $3 million profit times three, you've got a $9 million value business. The mistake that most SME owners make is they spend about 95% of their time trying to drive that profit, increasing revenues, which is, of course, important to manage costs. And we're taught as business owners to do that. So a lot of our time is driving revenue managing costs, or we haven't been taught and don't know how to spend our time.

It is actually introducing things to drive the multiplier. So the six steps to increase your multiplier are designed to increase that multiplier from three to five. It's much more enjoyable for that small business owner and their advisors, their accountants, lawyers and their financial advisors, to actually have a strategy to drive that growth. And just as importantly, for people looking to acquire businesses, they actually want to see that there is upside once they've acquired that business. So if we take a typical SME, that's got $3 million, profit and or more Wire three, that's an enterprise value of $9 million. Our approach after 18 months is to increase that profit to four, and then increase that multiply from three to five. So the value of the business is now four times five. And now 20 million.

That's where we're able to generate the 220% upside by getting the SME owners to actually work on the things, the six things components that drive that multiplier, above the industry benchmark. By focusing on that you're able to get fast compound growth. It's what's called a high growth stock on the stock market. What we need to get our SME owners thinking about is how do I create a high growth, share price growth strategy for my own business, because that will create organic growth and look at them if you're looking to have your business transaction-ready, as we call it. It will allow someone to see that you've actually got ways in which you can create concrete compound growth, which makes your business much more valuable. With the de-risking processes underlying them.

Joanna: Absolutely love it. I absolutely love it for so many reasons. I think, number one, this is such a good conversation to be having right now. So right now where we are, and we probably won't publish this for a few weeks, but right now we are sitting in the midst of a pandemic, and businesses are being challenged. Many businesses are being challenged in terms of, you know, liquidity and business model as a whole, you know, is the business model that they have something that they will be able to see through after the crisis has ended.

And, you know, some businesses that have fared well still have a crisis in relation to business models in relation to their ability to have scaled up when the opportunity has been there. So I think there are so many reasons why this discussion that we're having today is massive. pertinent because businesses perhaps more than ever have now, the requirement or the need to step back and really have a bit of a think about the model and whilst profit may have seeped out the door, particularly, you know, for many industries, if we're able to work on the multiplier, then when the profit comes back, then that potentially gives businesses the opportunity for exponential growth out of this period. What're your thoughts on that?

Marc: Yeah, absolutely. Um, you know, when we have a thing like COVID, it's just like the GFC 12 years ago. It's essentially a black swan event when the tide goes out. And you know, when we look at businesses, what accountants, lawyers and advisors will often say is, you know, boom period, a lot of businesses can make money, but when there's a stress test in the market, that's when the tide goes out and good businesses come to the fore, and potentially business models that haven't been fully honest. And ready for scale, get tested and found out.

So the opportunities in this downtime rather than playing the victim and thinking, well, the markets just it is what it is what smart business owners are doing is actually saying, now's the time to do that strategic activity to increase the multiplier for that exact reason so that when the market does come back, as you said, that every dollar of profit is more valuable because if you think about it with a balance sheet if you have a transactional dollar of revenue, it's worth one on a balance sheet. Whereas if you have recurring revenue on your profit and loss, it's worth three times on the balance sheet. So changing the product mix opening distribution channels, also addressing some of what we call the one words, which are those products in the business or those things that are in the business that have served you historically, but you're only continuing to use them because of ego, or it's just what you've been doing.

So it's a really good point to reassess the business and think, how is the market going to be buying in the next five to 10 years? Where is the most value going to be? And how do I redeploy our scarce resources? Because we do have a lot of SMEs that have scarce resources. So it's even more important. How do we deploy those resources into that higher value recurring revenue stream, as opposed to the historical thing that was said that's what we call the one that's like the golf analogy. A lot of us hit the one wood because we've always been taught to do that, but it's often costing us strokes or costing us other opportunities in our business, so thinking about business differently.

Joanna: I'm glad you explained the analogy I'm gonna say Marc because not being an avid golfer myself. But I have known to have a swing but got it okay. It's a golfing analogy. All right. I'm with you now.

Nathan: Just saw that to Mark's point what I'm seeing a lot of commentary systems now is no. With this new normal called move forward, what are they done starkly in terms of services or programs that might be honest, profitable as others? And where are the markets that have served them best that money wants them to move forward? So in very simplistic terms, what I'm finding a lot of businesses are asking now is, now, is my message going to be as relevant?

Is that going to be as relevant moving forward for the skew market? Have I got the right services or products? Are there ones I need to pull back from a trend a little bit? And what're the means of communicating and delivering to that market? being online offline, we'll see service delivery is going to change if you've got a more service-based business, you know, for some businesses, so looking at what's the message, who is the market, what's the method of interacting with them?

And in the last sort of, you know, two months or so since you know, COVID has come in I know, this all got away sort of a couple of weeks down the track, but you know, an analogy I've heard a couple of times. Recently, yeah, now people want life raft, not the yacht. In other words, what do they need to keep moving forward, that's maybe a slightly lower dollar value sale that keeps, keeps them in business, keeps the wheels churning, before they get back to maybe the dollar values about selling before. So that's a different message. The markets got to be more finely tuned. And I find myself doing a lot of clients about, you know, who's a market that's well suited to what you've got, we can solve the problem for them. And they've also got some capacity to pay and to invest. Now, that's a very practical approach, but that's a lot of conversations around at the moment.

The 6 steps to increasing the multiplier of a business

Joanna: Yeah, brilliant. Okay. All right. So let's go to the six steps. Then. What are the six steps? Maybe? Let's start with number one. What's the first one?

Marc: The first one in the first step in moving the multiplier is talent capability and culture,

Joanna:
Talent, capability and culture? What do you mean by that Marc?

Step 1: Talent, Capability and Culture

Marc: So the first way to increase your the value of your share price over competitors is if you have a very strong culture, what that means is you've got higher retention of staff, therefore less risk in your delivery, greater corporate knowledge, you have much greater ability to attract quality staff and spend less on recruiting because as an SME, we don't have often the opportunity to get the right metric folks into the business. So having that culture and their capability and talent increases your loyalty with your staff and therefore you're more valuable than a competitor that sells the same product.

Joanna: And so of course, you're talking about retention. But and and and of course, first you have to understand who the right people are. And I'm sure about that talent capability.

Marc: It's very important it's a great question you've asked me because, you know, we've never met a client that doesn't have a mission statement or a nice thing that says we're going to be good to the community and it's normally an eagle soaring or Some people rowing your boat and all those sorts of things. And these are our values. But they actually don't become that's not culture, what culture is, is articulating why you're in business, what are the values you own, defining what they mean, and then turning them into behaviours.

So when you're interviewing someone, because no one says on their CV, they spent six months looking at Facebook, they did this, they did that. But when you meet someone, you can clearly tell whether they're a match for your business. So actually identifying behaviours, articulating them, and then comparing that to the people you meet, will actually allow you to really laser in on getting that competency matrix, right? Because it's not just about having the skills. It's about being the right fit as the same whether it's an orchestra, sporting teams, management, oh, people always talk about putting the band back together in business. What they are talking about is putting a management team relationship in that they know and trust and share the same values.

So actually defining what your behaviours are And how you do that actually allows you to retain attracts the right people, because you ultimately as an SME should be getting the majority of your staff from word of mouth from your suppliers, clients and existing staff. If your existing staff are actively recruiting or saying positive things about you at the barbecue test, what that means is you don't have a strong culture. But if you have staff, and so it's a great place to work, come and join us where we are growing, that barbecue just saves you on recruiting fees, make sure like for why people join the business, and you retain that culture because one of the key risks of scaling is how we retain culture.

So as soon as you've got behind those behaviours, what you've got is WD 40. Culture is either sand in your engine, or it's WD 40. Making things move as quickly as seamlessly and frictionlessly as possible. So as soon as we get that culture, what we've got is much more businesses and more competitive. And the best example of that is Virgin. And Richard Branson has built a $1 billion company from scratch all on the promise of fun, fun and irreverence. It's the customer base of its clients. Virgin, a fun thing.

Nathan: Yeah, it's a really good point Mark makes and I remember reading his biography many years ago now but yeah he's sold premises guarding white if you will, for setting up all those businesses was going in industries that were in his words, you know, fat lazy, having a good time a bit too happy and bloated, if you will. And you know, coming up with a culture that was innovative, fun, obviously all about the customer and being price competitive as well. So you know, that's that that was his sole premise if you like, and then the consistency through setting all those businesses.

Tips for SMEs on talent, capability and culture

Joanna: Yeah. And I love you. I've written the book as well. And I'm sure most of our listeners have to and you know, absolutely, that's an example of a culture that I think many of us in business, you know, aspire to create but talking about it from a practical SME perspective, how do we and I love your barbecue tears. I love a good test in which the barbecue taste is very memorable. I'll be taking that away today. But what some examples of how, you know, you've talked about creating a culture and values that the staff understand and, you know, implicit in that is something that, you know, continues to feed through that, you know, the staff actually feel, you know, there's some integrity behind not just words on a piece of paper, it's so often is the case, but what are some other tips in relation to SMEs, creating this culture in the environment that are they sitting in, you know, always too many things to do and not enough time to do it in what are some simple, easy ways to create this approach of talent, capability and culture?

Marc: Great question Joanna, and part of your question here I'll hit the nail on the head first is actually scheduling the time to do it, so making sure that you have culture days in the business schedule so that you can continue to embed that in the business and those behaviours. So firstly, actually allocating the time because culture drives the human capital of your business. Yeah, you ask CEOs on podcasts or any car around the world, what's your most valuable asset? And they always say their people.

And the follow-up question should be well, how much do you invest in those people and if you're a corporate, you invest a lot because you've got the finances and the knowledge to do that. In the SME community, sometimes when especially through COVID, things are really tight, and sometimes it's one of the first line items to go. So it's actually more important to do it. So firstly, we have to schedule the time to do it, define those behaviours. So as a real-life example, in our business matures, for 20 years, one of our values is fair.

And so what that means is, all of our joint venture partners are 5050. We don't do 5149 deals because that would indicate a requirement for control, which means we don't trust them which isn't fair. Because a deal is perfect when both parties feel it's fair and it's energizing. If you walk away feeling as though someone's taken advantage of you, at some point you give up. So when both parties feel it's fair, what we then are able to do is have that energy which drives culture and in our business, we don't have an annual leave form.

So since we started in July 1999. We've never had an annual leave form. And what we say to our team members is, take us as long as you hit your commercial KPIs. Take as much time as you need to look after yourself. Sometimes they take less, sometimes they take no more, but not having that annual leave form around the piece of paper is actually a material demonstration of our culture because we have a piece of paper, people might not take as much time as they need by not having it and not reporting it. It allows people to be empowered to make their own choices.

Joanna:
That is amazing. I love that but that is brave. That is a brave step. Firstly, how many staff, do you have

Marc: When we launched that, we went from 8 to 88 stuff now in the first three years. So we manage that. And then we went to 243 in LA, just before the GFC and then dropped back down to about 126 now. We now follow their own advice and restructured our multipliers. We now license our IP so we now have as many internal staff but that so you will still to this day, we don't have a form. People still you know greet us with a smile and it's when we say that but when they join, they say okay so you literally don't have a form.

Joanna: When you say you don't have a form. Presumably, you also mean that you don't track it as in you don't have any maximum number of days that they can... Okay, have you got any jobs going? I'm on my way over to you. Hahaha no, I'm kidding. I'm kidding. I'm happy here. What am I saying? But, I mean, you know.

Nathan: Haha good one Jo.

Joanna: But I mean, sounds like you totally end the barbecue tastes there. I love that, that that would definitely get people talking.

Nathan: And the only thing is, you know, some people are gonna hear that word and think it's, you know, a bit abstract to be dysentery, but I mean, simply the font, it's the way business does things around that business. And, you know, to make it more left brainy for one of the better turns on. There are really good stats and lots of research to show that obviously, the more energized and engaged employees are, the better the customer experience. And the higher the profit of those businesses as well. It'd be easier for the service profit chain and it looks at employee engagement, customer experience and what that means to the bottom line of business. So yeah, I think it's absolutely crucial and it's often the starting point of delivering that great customer experience which then flows through the more sales, high profit and ultimately, the thing of today a high valuation as well.

Joanna: Yeah, yeah, love it. Okay. And just one thing, you know, implicit on and sorry, I keep coming back to the light no limits on leave thing I love it it's very unique but I guess implicit in that approach is that you must have very good ways of managing via numbers to know to be able to track performance and so that employees themselves, you know, are held to something other than hours and days.

Marc: And then to Nathan's point on the left brain side of men do you know, what we, you know, he kind of asked them, you know, consultants and coaches and, and folks within the business about, you know, what are the source-based KPIs or what do they actually need to do as a carrier to ensure they hit the commercial returns so that we've got the flexibility to do that. So understanding the structure and the amount of activity required to generate the result, having that outcome-focused and breaking even based, you know, for six minutes, as the commercial model works is we don't have hourly rates.

So we charge retainers and success fees. So what that allows us to do with our staff, our team internally is we can manage them that way as well. So we're really clear around capacity and utilization and those sorts of things. We do have that very much fine-tuned, but it's designed so that they can actually we can get the numbers as if clients are happy as a company and our team are happy. You know, barbecues are good fun, right? So they keep commercial deliverables, use that freedom and no one wants to work till 8 pm on a Friday night. That's no, that's not fun. That's not sustainable.

Joanna: Yep. Love it. Okay. All right. Oh, gosh, this is too interesting. We've only done step one. I hope our audience is enjoying this as much as I am, and not minding that we're really getting deep into some of these areas.

Joanna: Well, that's it for part one of our three-part series, all about how to increase the multiplier of your business. Now, of course, I get it, we only got to step one. And of course, we have six steps to go. And we'll be covering those in the next two episodes of this three-part series. But of course, in today's episode, we really just talked about what the multiplier is, why do you think you would want to increase the multiplier of your business and how it can lead to exponential growth in the value of your business and of course, we tapped into that step one, which was all about talent, capability and culture, I'd love you to come back to part two and part three.

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